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SUBJECT: THE LEMBERGS CASE: TAKING DOWN A MINI-GARCH

Classified By: Pol/Econ Chief Tamir Waser for reasons 1.4 b and d

11. (C) Summary: The story of Aivars Lembergs is one of post-independence Latvia's most compelling yet morally troubling tales. To much of his electorate in Ventspils, Lembergs is the brilliant protector of the city's autonomy and the great provider of prosperity. To successive Lavian governments and individual politicians, Lembergs' economic and political patronage network is a force to either co-opt, plug into, or fight) but definitely not to ignore. As such, Lembergs' arrest on charges of large scale money laundering and bribery is seen as potentially the most important public corruption case in Latvia's history. Observers refuse to get too hopeful as they are pessimistic of the General Prosecutor's ability to win, let alone obtain a sentence of real jail time. However, recent moves on the part of the government and Lembergs himself are signals that someone in power is worried.

2.(C) So who is Lembergs and why is he important? Born in the eastern Latvian town of Jekabpils in 1953, Lembergs obtained a degree in economics from the University of Latvia and settled in the port city of Ventspils in 1977. Lembergs began his career as an economist at a Ventspils port factory and, after a variety of KOMSOMOL and Communist Party jobs, he became Chairman of the Ventspils Executive Council (City Council) in 1988. In 1990, Lembergs was elected to the Latvian Supreme Soviet (parliament) on the pro-independence Popular Front ticket, however, Popular Front leaders today say that, if they even remember him, they remember Lembergs as an opportunist. They say he was definately not a member of the inner circle of Latvian patriots in those days. In 1994, Lembergs formed his own regional party "For Latvia and Ventspils" and was elected mayor of Ventspils. He has been overwhelmingly reelected to that position ever since.

13. (U) Lembergs, like so many others in Latvia, made his initial fortune in the early 90s, when he bartered political influence for shares in various off-shore companies, many of which are now indirect owners of key portions of the infrastructure of Ventspils' port, including the oil terminal Ventspils Nafta. Most things about Aivars Lembergs are "estimated" such as his net worth, his holdings, and his influence. Until recently, Lembergs was among the ten richest individuals in Latvia, that is, until he moved most of his assets into the name of his wife, who, incidentally, was named the richest woman in Latvia. Mainly due to his ownership and control of Mediju Nams, a company that publishes six newspapers, he has also proven adept at keeping himself in the public eye without revealing, or having others reveal, details of his personal and business life. One of the newspapers, Neatkariga Rita Avize, Lativa's second largest in terms of number of subscribers, serves as Lembergs' mouthpiece by organizing press campaigns against his enemies) the favorites being the US Embassy, the Soros foundation, and the anti-corruption bureau) and expounding Lembergs' position on every significant event in Latvia.

14. (C) Until his indictment in early 2007, Lembergs managed to avoid indictment for corruption and conflict of interest by setting up complicated ownership, management, and income distribution structures for his business holdings. He has allegedly financed several political parties through 'political shares' in Ventspils companies as well as pay offs currently being called "Lembergs' Grants" or stipends to Members of Parliament and political parties.

15. (C) The origins of Lembergs' wealth remain murky. For the last ten years, rumors have consistently fingered Lembergs as the main decision-maker behind the so called "Ventspils Group") a collection of powerful transit concerns based in Ventspils port. The key companies in the group include crude oil terminal Ventspils Nafta, oil products terminal Ventbunkers, potassium terminal Kalija Parks, and ammonia terminal Ventamonjaks. There is no credible estimation as to the value of Lembergs' alleged, but undocumented, holdings in various off-shore companies associated with the Ventspils Group. What is clear is that over the last several years, Lembergs' declared wealth has grown significantly. Comparing the Ventspils mayor's official income declaration for 2002 to his 2006 declaration, there was a significant increase in wealth without any change in business interests or growth.

16. (C) In March of this year, Lembergs was charged with large scale money laundering and public corruption. The Riga Center District Court made the decision to arrest Lembergs on the grounds that he could potentially interfere with the investigation process or intimidate potential witnesses and placed him in prison. Though he was placed in prison he continually appealed this decision first on the grounds that it was ridiculous to place him in prison and then on health

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grounds. On July 10th, the Riga Regional Court, in a closed court proceeding, released Lembergs from state prison and placed him in house arrest. This was the sixth appeal by Lembergs to the court demanding his release from prison. This was quite the blow to the Prosecutor's office which has only just decided to once again appeal to have him placed in prison. There is much confusion in the public and much speculation as to the reasons for this decision. To date, the judge's ruling has not been publically released. (Note: In 2006, Lembergs was also charged for abuse of office but the charges were less serious and no jail time was involved. This case was dropped shortly after charges of money laundering and corruption were brought against him.)

17. (C) Also under investigation in this case are the council Chairman of Ventspils Nafta and President of JSC Latviajas Naftas Tranzits, the Council Chairman of Ventmonjaks and other Ventspils companies, a high powered Latvian attorney, Lembergs' "book keeper" whom they are hoping to be able to "flip" into confessing against him, the Board Chairman of Latvijas Naftas Tranzits, and several Ventspils businessman connected to Lembergs who work on the council of the Latvian Shipping Company.

18. (C) Lembergs' supporters view his release to house arrest as a major victory. However, the Prosecutor's Office has just announced that Lembergs is now suspended as Ventspils mayor and Chairman of the Ventspils free port administration until further notice. This is a new and unprecedented move on the part of the Prosecutor General which has left many observers scratching their heads as to what comes next. This announcement is a bit strange, will certainly be challenged by Lembergs, and is unprecedented. Previously, the Prosecutor General has said that he did not have the power to suspend Lembergs as mayor and that only the Minister of Regional Affairs Stokebergs had the authority to suspend a public official. The minister, in turn, said that he could not in good faith suspend Lembergs since the prosecutor had not provided the minister the evidence against Lembergs. But

now, the Prosecutor General asserts that he has such authority, which raises the question why it was not used earlier.

¶9. (C) Aivars Lembergs is energetic, clever and confident. He styles himself a master of the universe in dealing with Russian elites, but many say Russia's leading oil businessmen are tired of 'the little tyrant from Ventspils.' He clearly sees himself as a champion of his city, a perspective reinforced by the adoring fans and pensioners who met him with flowers and cheers upon his release from prison. One reason for Lembergs' local popularity is his reputation for having been the driving force behind Ventspils' economic prosperity. Ventspils per capita GDP far exceeds that of Latvia's average each year, and the city itself is extremely modern and immaculate compared to the rest of Latvia. City services, sports and educational facilities are ample, well funded and efficiently run. Lembergs is generally accessible to his constituency and his deputies are known to be courteous and efficient by Latvian standards. Because of this reputation, the Green Party and Farmers Union (ZZS) announced Lembergs as their candidate for Prime Minister last year, a move that eared them a boost in the polls during the elections.

¶10. (C) After this announcement of Lembergs as a PM candidate, there was much national, and international concern as to the state of the rule of Law in Latvia. This concern was later reinforced when the government clashed with then President Vike-Freiberga over controversial amendments to the laws on security institutions which were pushed through the Parliament with unprecedented haste. (see Reftel) This lead to much speculation as to who was really behind the push for this change, as in who really needed to know about law enforcement activities. (Note: Prior to his arrest, Lembergs attended coalition council meetings with the Prime Minister)

¶11. (C) Many view the current charges against Lembergs and his cronies as the ultimate test of Latvia's democracy. Lembergs' fall will change the balance of power amongst the oligarchs in particular and the political power structure of Latvia in general. It is unclear if Lembergs, should jail time become inevitable, will 'spill the beans' on those in positions of power whom he has funded. If the Prosecutor General can convict Lembergs, and if the judiciary will actually hand down a jail sentence and heavy confiscation of property, Latvia will have proven to the rest of the world that the principle of equal justice under the law prevails. If not, Latvia will have demonstrated that it is indeed a small country ruled by mini-garchs.

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